

Way out of Informality: Facilitating Formalization of the Informal Economy in South Asia



International Labour Organization



Duration:

June 2012 - December 2016

Donor: Govt. of Japan

Geographical Coverage:

- Bangladesh
- Nepal
- India

Priority Sectors:

- Construction
- Small Hotel & Restaurants
- Informal Transport
- Domestic Work
- Automotive Suppliers
- Small Manufacturing

Key Partners:

- Ministries of Labour
- Employers' Federations
- Trade Unions

Description:

The project facilitates formalization of both enterprises as well as employment relationships in selected sectors in the informal economy. The project also supports the discouragement of informalization of jobs and enterprises in the formal economy.

Project Brief

Background & Rationale:

Large decent work deficits in the rapidly growing informal economy are a major challenge in South Asia. The informal economy currently comprises more than three-quarters of all non-agricultural employment in the region. This presents a significant obstacle to the goal of realizing decent work for all. Formalization is a gradual process cutting across several policy areas and embedded within the Decent Work for All commitment. ILO's partners have reconfirmed the objective of "moving out of informality" as the ultimate goal and recognizing the many ways to address formalization.

In 2010 the ILO issued a profile, with seven interconnected areas, promoting an integrated decent work strategy for the informal economy: i) growth strategy and quality employment generation; ii) regulatory environment, including enforcement of International Labour Standards and core rights; iii) organization on representation and social dialogue; iv) equity (gender, ethnicity, race, caste, disability age); v) entrepreneurship, skills, finance, management, access to markets; vi) extension of social protection; and vii) local (rural/urban) development strategies.

Target Group:

The primary target groups of the project are both firms and workers in selected sectors. For firms the target group is those with potential to move into the formal sector as well as those which face competitive pressure towards informalization of its workforce. For workers the target group includes self-employed workers and unpaid family contributing workers in the informal economy; the workers in the informal sectors, the non-regular/informal workers linked to the formal sectors, the workers in the formal sector at risk of being informalized or replaced by informal workers, and the underemployed and youth facing difficulties in finding formal jobs. The local and national stakeholders are the secondary target groups whose capacity will be strengthened through collaboration under the project. These groups also include: the tripartite constituents at the national level (Ministry of Labour, Employers' Organizations and Trade Unions);



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Project Strategy:

The project addresses the problem by facilitating formalization of informal businesses and workers, and discouraging informalization of the formal economy firms and jobs. The labour side of formalization focusses on: a) formalizing employment relationships through official contracts and registration to authorities, and b) workers' registration to various public schemes that provide formal recognition and access to certain protections/benefits (e.g., registration with a social protection scheme). The firm side of formalization is equivalent to business registration and licensing. Furthermore, the project also supports the improvement in data collection on the informal economy.

The project facilitates review of the policies and the regulatory incentives and disincentives of formalization/informalization in a few key sectors. It further seeks to promote growth of formal employment through the application of a job-rich growth strategy and an integrated support to formalization in selected target areas. Information campaigns directed at target beneficiaries as well as the capacity building of the concerned government institutions and social partners constitutes an essential component of the support. Good practices and relevant tools coming out of the ILO's informal economy work and formalization assistance are being shared through consultation workshops and web-based platforms.

Through consultations and dialogue with the constituents the project is identifying the sectors for intervention. Thematic studies are being conducted for each selected sector. These identify the key areas on which the interventions will focus. At the local level, detailed planning and implementation is guided through a structured participatory diagnosis-dialogue-planning process. Specific formalization assistances are introduced to the local partners or existing services will be strengthened and expanded.



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